

**CAPSTONE: VALUATION**  
**28C00500**  
**Spring 2021, period IV**

27.1.2021

**Course objective:** By the end of the course, students will be able to:

- Understand and apply key valuation concepts to value companies
- Analyze and incorporate financial statement information into a spreadsheet valuation model
- Understand the pros and cons of various valuation models
- Interpret, discuss, and present valuation results for strategic decision making

**Pedagogical philosophy:** The course aims to integrate everything you have learnt so far. After gaining the theoretical basis for different valuation models, our focus will be on applications.

**Prerequisites:** This course builds on (almost) everything you have learnt during B.Sc.-degree with finance concentration. It is not self-contained.

- *To be able to make any sense of the course*, you have to be familiar with Introduction to Finance, Corporate Finance, Investment Management, Introduction to Accounting, and intermediate spreadsheet (e.g., Excel) skills. Aalto University or exchange students with less than three courses completed in finance are strongly discouraged from enrolling, although can do so (space permitting) at their own risk.
- *To be able to fluently follow the course and maximize learning*, at least five completed courses in finance and accounting as well as advanced spreadsheet skills are strongly recommended. Students may find it helpful to make this the last or almost last course of their B.Sc. degree.

**Course content:** The course consists of five parts:

1. Introduction and corporate strategy
2. Interpreting and using financial statements for valuation
3. Forecasting
4. Valuation techniques
5. Empirical issues and special cases

**Registration to course:** Maximum of 75 students can be accepted to the course. In case of overbooking, priority will be given to Aalto finance students based on criteria in study guide. If you are not a finance major student, please wait until the end of registration period to see if your registration is accepted or not.

**Late registration:** In case you did not register in time, it may be possible to register to the course if space permits. Instructor(s) and planning officer will unfortunately not be able to

answer queries with content “I did not register in course, can I still participate”, or “I am not majoring in finance but I really want to take the course, can you offer me a seat?” before the first lecture. Your instructors will announce before the beginning of the course whether the course is fully booked and give instructions how to proceed if seats are available.

**Relation to other courses and value-add of this course:** This course has links to several other courses.

1. All courses in "Fundamental knowledge in business" (including first course in Accounting, Business Law, Economics, Finance, Management, and Marketing) will build a basis for understanding how value is created, measured and managed. Students are assumed to be comfortable with basic business concepts and terminology. Investment Management (28C00300) is required for the understanding of basic return concepts. Corporate Finance (28C00100) discusses capital structure and dividend issues integral in corporate valuation
2. Investment Management (28C00300) also covers valuation issues briefly, but we will dig much deeper in investigating what is an entire company or its equity worth, especially the “how to” part of valuation

Value-add of this course is to teach you how to build the right valuation model to the valuation task at hand and how to interpret the results.

**Instructor:** Associate Professor Elias Rantapuska, Tel: +358 40 353 8419, [elias.rantapuska@aalto.fi](mailto:elias.rantapuska@aalto.fi). Office hour are on Mondays 2-3 PM online at <https://aalto.zoom.us/j/9224976309>, please send an email beforehand to ensure instructor will also log in. For all content and course policy matters, please contact the instructor.

**Co-instructor:** Erkki Vihriälä, [erkki.vihriala@aalto.fi](mailto:erkki.vihriala@aalto.fi). For course administration, student-led case sessions, and logistics please first contact Erkki.

**Preferred mode of communication:** E-mail is especially good for questions, which are likely to require a short answer. For topics worth a more detailed content-related discussion Q&A session or office hour is usually more efficient.

**Schedule:**

- 1) The course has pre-recorded *lecture videos*. The set of lecture-videos will develop during the course. These videos are broadly equivalent to on campus live lectures which are not possible this year. Note that the MyCourses site also has *valuation videos* (also available as podcasts), which are different from lecture videos (for further information, see ‘Video quiz’). Watch the videos when most convenient, suggestion for optimal timing is available on the last page of this syllabus.
- 2) There is a scheduled weekly live Q&A Zoom-session (<https://aalto.zoom.us/j/69674989663>) on Tuesdays at 1:15 PM (exception, March 30 at 3 PM) to answer any questions which may arise when watching the videos or other material. We can also have an ad-hoc discussion during the Q&A session, the

format is very much open. The plan is also to have short (non-gradeable) exercises during the sessions to reinforce and deepen understanding on the course material.

- 3) Visiting lecture by PwC is online and live on March 4, 1:15 – 2:45 PM. This session brings a practitioner perspective on financial statement adjustments and cash-flow analysis to be used as basis for valuation. Note that you should review all of the first week material before this session as it builds heavily especially on understanding lectures 3 and 4. Note that this session will not be recorded. The link is <https://aalto.zoom.us/j/62239495037>.
- 4) Live student-led case sessions are online and live (March 11, March 18, and March 30) from 1:15 – 2:45 PM. The link for March 11 and 18 sessions is <https://aalto.zoom.us/j/64343548814> and <https://aalto.zoom.us/j/67096454864> for March 30 session.
- 5) Visiting lecture by Danske Bank Corporate Finance is online and live on March 18, 3-4:30 PM. Note that this session will not be recorded. The link is <https://aalto.zoom.us/j/62081507617>.
- 6) Case introduction by Intera Partners is online and live on March 25, 3-4:30 PM. This session introduces the group valuation project case company and you can ask questions from Intera Partners. Note that this session will not be recorded. The link is <https://aalto.zoom.us/j/68866663442>.

For all sessions, the online session opens 15 minutes before scheduled start.

Group valuation project is due on April 7 at 07:45 AM.

Please note that the schedule for the course is very tight and the course requires a lot of work. It will be an imperative to have a “clean schedule” especially between March 29 to April 7 to prepare the group valuation project. It is strongly advisable to start working on the group valuation project already at the beginning of the course.

#### **Course material:**

- Lecture notes and assignments provided by the instructors and visiting lecturers
- Palepu Krishna G., Paul M. Healy and Erik Peek: Business Analysis and Valuation - IFRS edition, 5<sup>th</sup> or 4<sup>th</sup> ed. (Textbook, required reading)
- Pinto Jerald E., Elaine Henry, Thomas R. Robinson and John D. Stowe: Equity Asset Valuation, 3<sup>rd</sup> ed. (Professional reference handbook, recommended reading)
- Lecture-videos at MyCourses-page
- Valuation videos at MyCourses-page
- Additional material posted on course MyCourses-page

**Case assignments:** There will be three case assignments to be submitted on the day of the respective student-led case sessions. Each assignment involves assignments on the group valuation project company. Due dates are provided on the course schedule. You may prepare the packages in groups of up to 4 students, no exceptions to the maximum group size. High-level discussion between groups is allowed, but no coordination of work between groups (e.g., answer sharing) is allowed.

Case reports (presentable version in .pdf) must be submitted on MyCourses by 11:45 (sharp!) on the due date. Case assignments constitute 30% of the final grade, 10% for each case.

Use my courses to register your group choice. You are free to switch groups between assignments.

**Student-led case sessions with case presentations:** We will discuss case assignments in the three student-led case sessions. Each group should sign up for a presentation in one student-led case session and be prepared to discuss any question of a case during the session. Instructor will randomly call up signed up groups to discuss one question in a case for up to 5 minutes and we continue discussion based on the group presentation. The ordering of the groups will be random so any group can be called to discuss any case question. Only group members present in the session will be awarded points. Case presentation constitutes 5% of total grade.

If you are not signed up for a presentation on a particular day, you do not have to be present online to receive points from the case assignment. Sign-up for case presentations is available at MyCourses page (one signup per group).

**Video quiz:** for most of the lectures, there is additional one or more short valuation videos. These videos were produced in spring 2018 by asking several practitioners how they perform valuation in real life. Your task is to watch these videos before the exam and answer 1-2 multiple choice questions to complete the video quiz. Video quiz (all questions related to all videos combined) constitutes 5% of the total grade.

**Group valuation project:** This project enables the students to experience a real-world challenge: valuation of real-life case company today. The group valuation project company is Sitowise. The instructor will provide a starting point, but students are expected to retrieve material for valuation themselves.

The group valuation project model should be submitted as a spreadsheet file containing at least the following: inputs, forecasted financial statements, actual valuation, and summary valuation. The components of the model can be presented on multiple worksheets or on a single worksheet but, in either case, related items must be grouped close together and the logical flow must be clear – i.e., a left-to-right top-to-bottom flow is required. The model must be self-contained: please do not include links to other files or internet resources in the final submitted version, although you are of course welcome to have these features in any interim working version of the model.

Group valuation project constitutes 30% of the final grade. You should submit both the model (one spreadsheet file) and high-level documentation slides, two files in total. Suggested length of high-level documentation is 5-10 slides: it does not have to cover the entire model, but key strategic insights and assumptions and of course your final estimate for value.

**Class participation:** Outstanding class activity constitutes additional 5% for the final grade. Class attendance in Q&A sessions, visiting lectures, and student-led case sessions is not mandatory. Remember that human cognition is typically limited to one task only: you cannot learn valuation and comment on Facebook/Twitter/Jodel/Tinder etc. simultaneously. Log in your activity through MyCourses to have a chance to receive some of the above-described up to 5%.

**Scholastic dishonesty:** We expect adherence to highest standards of scholastic honesty and full understanding of “Aalto University Code of Academic Integrity and Handling Violations Thereof”. You are free to discuss problems on a general level and help each other conceptually, but each group should submit their own, independently prepared answer. Any violations are taken very seriously: there have been cases of academic dishonesty in fall 2020 which have led to dismissal from the class and loss of trust and reputation. Do not tarnish your reputation – it is far more valuable than your GPA! If you do not believe the instructor, ask Enron CEO Jeffrey Skilling or Jari Aarnio how do they feel about pushing boundaries for integrity really hard.

**Exam:** There will be a final open book exam that will cover the lectures, student-led case sessions, and assigned chapters from the course material. Exam constitutes 30% of the final grade. The first exam will be held on April 12, 1 – 2 PM, link will be at MyCourses. There will be a make-up exam on May 24, 4 – 5 PM (but there will not be a third exam). All case, group valuation project, presentation and participation points are valid in these two exams only. Sign up normally for the second exam through WebOodi, for the first exam you are automatically enrolled. In case you miss registration to the second exam, please follow current regulations and deal with the exam office if necessary – unfortunately the instructor and co-instructor have no power on who can participate the exam so contacting them will not help.

Note that the exam has an insanely tight time limit and this is on purpose for three reasons. First, the more fluently you know the material, the better you will fare at the exam even with intense time pressure, those who have no clue will waste their time finding the relevant information rather than completing the exam. Second, given the recent events of scholastic dishonesty, time-constraints contribute to honest, knowledgeable students faring well as dishonest coordination will impose a time cost to the coordinating student. Third, the exam also simulates investment bank and consultancy assessment center tests (lots of calculations with intense time pressure) – think the exam as a preparation for some of the toughest employment processes globally.

**Passing the course:** To pass the course, a student is required to score at least 50 points on all grading items combined. It is not possible to do any extra work after the final grades have been assigned, this applies also to grades just below the higher mark cutoff. The instructor retains the right to determine rules and allocations of additional points on top of

100% at his own discretion, even while the course is in progress. Grading elements up to regular 100% are of course fixed. 50% of full points translates to a grade of 1, 60% to a grade of 2, 70% to a grade of 3, 80% to a grade of 4, and 90% to a grade of 5.

### Summary of grading:

#### Item

Case assignments	30%
Case presentation	5%
Video quiz	5%
Group valuation project	30%
Final exam	30%
<b>Total</b>	<b>100%</b>

Class participation Additional 5%

### Retrieving course materials:

- Lecture notes: Course MyCourses-page
- Assignments: Course MyCourses-page
- Videos: Course MyCourses-page
- Textbook: Bookstore or library

You can order a printed copy at:

<https://www.booky.fi/search.php?search=BUSINESS+ANALYSIS+AND+VALUATION%3A+IFRS+EDITION>

An e-book can be downloaded (for a charge) at:

<https://www.cengagebrain.co.uk/shop/9781473758421>

### MyCourses page

- Primary source of information
- To be updated regularly

<https://mycourses.aalto.fi/course/view.php?id=27578>

**Tentative schedule:** Please review the assigned material before the class. Case introduction and visiting lectures may change according to visiting lecturer schedules. Items denoted with (L) correspond to live material.

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<b>Mar 1-7</b>	Week 9:	<b>Introduction to course</b>
	Readings:	<b>Valuation basics</b> Palepu et al., Chapter 1; Pinto et. al, Chapter 1
	Week 9:	<b>Corporate strategy and operations as a source of value</b>
	Readings:	Palepu et al., Chapter 2
	Week 9:	<b>Interpreting and using financial statements for</b>

		<b>valuation I</b>
	Readings:	Palepu et al., Chapter 3 and 4
	Week 9:	<b>Interpreting and using financial statements for valuation II</b>
	Readings:	Palepu et al, Chapter 5
<b>Mar 4</b>	Week 9:	<b>Visiting lecture by PwC (L)</b>
	Readings:	Material provided by PwC
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<b>Mar 8-14</b>	Week 10:	<b>Forecasting I: income statement and balance sheet</b>
	Readings:	Palepu et al., Chapter 6
	Week 10:	<b>Forecasting II: cash flow statement</b>
	Readings:	Pinto et al., Chapter 6
<b>Mar 9</b>	Week 10:	<b>Q&amp;A session (L)</b>
<b>Mar 11</b>	Week 10:	<b>Student-led case session I: Strategy analysis (L)</b>
	Case study:	Group valuation project company, Part 1: Strategy analysis
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<b>Mar 15-21</b>	Week 11:	<b>Valuation techniques I: DDM and DCF</b>
	Readings:	Palepu et al. Chapter 7, Pinto et al., Chapter 5 and 6
	Week 11:	<b>Valuation techniques II: RI and accruals-based</b>
	Readings:	Palepu et al. Chapter 7, Pinto et al., Chapter 8
<b>Mar 16</b>	Week 11:	<b>Q&amp;A session (L)</b>
<b>Mar 18</b>	Week 11:	<b>Student-led case session II: Interpreting and using financial statements for valuation (L)</b>
	Case study:	Group valuation project company, Part 2: financial statements
<b>Mar 18</b>	Week 11:	<b>Visiting lecture by Danske Bank Corporate Finance (L)</b>
	Readings:	Material provided by Danske Bank Corporate Finance
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<b>Mar 22-28</b>	Week 12:	<b>Valuation techniques III: Multiples and connection between techniques</b>
	Readings:	Palepu et al., Chapter 7; Pinto et al., Chapter 7
	Week 12:	<b>Empirical issues in valuation: terminal value, cost of capital, equity premium, growth rates</b>

	Readings:	Palepu et al, Chapter 8; Pinto et al., Chapter 2, Chapter 4
<b>Mar 23</b>	Week 12	<b>Q&amp;A session (L)</b>
<b>Mar 25</b>	Week 12: Readings:	<b>Case introduction (Sitowise) (L)</b> Material provided by <b>Intera Partners</b>
<b>Mar 29- Apr 4</b>	Week 13: Readings:	<b>Special cases in valuation</b> Palepu et al., Chapter, Chapter 12 Pinto et al., Chapter 5, Chapter 9
<b>Mar 30</b>	Week 13: Readings:	<b>Student-led case session III: Forecasting and valuation (L)</b> Group valuation project company, Part 3: forecasting and valuation
<b>Mar 30</b>	Week 13:	<b>Q&amp;A session (L)</b>
<b>April 6</b>	Week 14:	<b>Q&amp;A session (L)</b>
<b>Apr 12</b>	Week 15:	<b>Exam, 1 – 2 PM (L)</b> You will be automatically enrolled through course sign up
<b>May 24</b>	Week 20:	<b>Make-up exam, 4 – 5 PM (L)</b> Sign up normally via WebOodi